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**DEPARTMENT OF THE TREASURY**

**Internal Revenue Service**

**26 CFR Part 1**

**[REG-124123-22]**

**RIN 1545-BQ57**

# Corporate Bond Yield Curve for Determining Present Value

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Notice of proposed rulemaking and notice of public hearing.

**SUMMARY:** This document sets forth proposed regulations specifying the methodology for constructing the corporate bond yield curve that is used to derive the interest rates used in calculating present value and making other calculations under a defined benefit plan, as well as for discounting unpaid losses and estimated salvage recoverable of insurance companies. These regulations affect participants in, beneficiaries of, employers maintaining, and administrators of certain retirement plans, as well as insurance companies.

**DATES:** Written or electronic comments must be received by [**INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER**]. A public hearing on this proposed regulation has been scheduled for August 30, 2023 at 10:00 a.m. ET. Requests to speak and outlines of topics to be discussed at the public hearing must be received by [**INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER**]. If no outlines are received by [**INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER**], the public hearing will be cancelled. Requests to attend the public hearing must be received by 5:00 p.m. ET on August 28, 2023. The public hearing will be made accessible to people with disabilities. Requests for special assistance during the public hearing must be received by August 25, 2023.

**ADDRESSES:** Commenters are strongly encouraged to submit public comments electronically via the Federal eRulemaking Portal at www.regulations.gov (indicate IRS and REG-124123-22) by following the online instructions for submitting comments. Requests for a public hearing must be submitted as prescribed in the "Comments and Requests for a Public Hearing" section. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn. The Department of the Treasury (Treasury Department) and the IRS will publish for public availability any comments submitted to the IRS's public docket. Send paper submissions to: CC:PA:LPD:PR (REG-124123-22), room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

**FOR FURTHER INFORMATION CONTACT:** Concerning the regulations, Arslan Malik or Linda S. F. Marshall at (202) 317-6700 (not a toll-free number); concerning submissions of comments, the hearing, and/or to be placed on the building access list to attend the hearing, Vivian Hayes at (202) 317-5306 (not a toll-free number) or by sending an email to publichearings@irs.gov (preferred).

**SUPPLEMENTARY INFORMATION:**

**Background**

Section 412 of the Internal Revenue Code (Code) prescribes minimum funding requirements for defined benefit pension plans. Section 430 specifies the minimum funding requirements that apply generally to defined benefit plans that are not multiemployer plans.[1] For a plan subject to section 430, section 430(a) defines the minimum required contribution for a plan year by reference to the plan's funding target for the plan year. Under section 430(d)(1), a plan's funding target for a plan year generally is the present value of all benefits accrued or earned under the plan as of the first day of that plan year.

Section 430(h)(2) provides rules regarding the interest rates to be used under section 430. Section 430(h)(2)(B) provides that a plan's funding target and target normal cost for a plan year are determined using three interest rates: (1) the first segment rate, which applies to benefits reasonably determined to be payable during the 5-year period beginning on the valuation date; (2) the second segment rate, which applies to benefits reasonably determined to be payable during the next 15-year period; and (3) the third segment rate, which applies to benefits reasonably determined to be paid after that 15-year period. Under section 430(h)(2)(C)(i) through (iii), each of these segment rates is determined for a month on the basis of the corporate bond yield curve for the month, taking

[1] Section 302 of the Employee Retirement Income Security Act of 1974, Pub. L. No. 93-406, 88 Stat. 829 (1974), as amended (ERISA) sets forth funding rules that are parallel to those in section 412 of the Code, and section 303 of ERISA sets forth additional funding rules for defined benefit plans (other than multiemployer plans) that are parallel to those in section 430 of the Code. Pursuant to section 101 of Reorganization Plan No. 4 of 1978, 5 U.S.C. App., as amended, the Secretary of the Treasury has interpretive jurisdiction over the subject matter addressed in these regulations for purposes of ERISA, as well as the Code. Thus, these Treasury regulations issued under section 430 of the Code also apply for purposes of section 303 of ERISA.

into account only that portion of the yield curve that is based on bonds maturing during the period for which the segment rate is used.

Section 430(h)(2)(C)(iv), which was added to the Code in 2012 by section 40211 of the Moving Ahead for Progress in the 21st Century Act, Pub. L.112-141, 126 Stat. 405, and has been modified several times since then (most recently in 2021 by section 80602 of the Infrastructure Investment and Jobs Act, Pub. L. 117-58, 135 Stat. 429), provides interest rate stabilization rules under which the segment rates are constrained by reference to the 25-year average segment rates. Under section 430(h)(2)(C)(iv), if a segment rate for a month is less than the applicable minimum percentage, or more than the applicable maximum percentage, of the average of the corresponding segment rates for years in the 25-year period ending with September 30 of the calendar year preceding the calendar year in which the plan year begins, then the segment rate for that month is equal to the applicable minimum percentage or the applicable maximum percentage of the corresponding 25-year average segment rate, whichever is closest. The last sentence of section 430(h)(2)(C)(iv)(I) provides that any 25-year average segment rate that is less than 5 percent is deemed to be 5 percent.

Under section 430(h)(2)(D)(i), the term “corporate bond yield curve” means, with respect to any month, a yield curve prescribed by the Secretary for the month that reflects the average, for the 24-month period ending with the month preceding such month, of monthly yields on investment grade corporate bonds with varying maturities and that are in the top 3 quality levels available. Section 430(h)(2)(D)(ii) permits a plan sponsor to elect to use the corporate bond yield curve, rather than the segment rates, to determine the plan's minimum required contribution. The yield curve that applies pursuant to this election is determined without regard to 24-month averaging. This election, once made, may be revoked only with the consent of the Secretary.

Under section 430(h)(2)(F), the Secretary is instructed to publish for each month the corporate bond yield curve (without regard to the 24-month averaging specification), the segment rates described in section 430(h)(2)(C), and the 25-year averages of segment rates used under section 430(h)(4)(C)(iv). The Secretary is also instructed to publish a description of the methodology used to determine the yield curve and segment rates which is sufficiently detailed to enable plans to make reasonable projections regarding the yield curve and segment rates for future months based on the plan's projection of future interest rates.

Section 1.430(h)(2)-1 was issued in 2009 to provide rules regarding the interest rates to be used under section 430. T.D. 9467, 74 FR 53004. Section 1.430(h)(2)-1(d) provides that the methodology for determining the yield curve is provided in guidance that is published in the Internal Revenue Bulletin. Notice 2007-81, 2007-2 CB 899, describes the methodology used by the Department of the Treasury (Treasury Department) to develop the corporate bond yield curve. Section 1.430(h)(2)-1(d) also provides that the yield curve for each month will be set forth in guidance published in the Internal Revenue Bulletin. Monthly IRS notices set forth the corporate bond yield curve for the month (without regard to the 24-month averaging specification), the section 430 segment interest rates (before and after adjustment pursuant to section 430(h)(3)(C)(iv)), and the 25-year average segment rates (which are updated annually).

Section 417(e)(3) provides assumptions for determining minimum present value for certain purposes, including the determination of a lump-sum that is the present value of an annuity, and prescribes an applicable interest rate for this purpose. Section 417(e)(3)(C) provides that the term “applicable interest rate” means the adjusted first, second, and third segment rates applied under rules similar to the rules of section 430(h)(2)(C) for the month before the date of a distribution or such other time as the Secretary may prescribe by regulations. However, for purposes of section 417(e)(3), these rates are determined without regard to the segment rate stabilization rules of section 430(h)(2)(C)(iv). In addition, under section 417(e)(3)(D), these rates are determined using the average yields for a month, rather than the 24-month average used under section 430(h)(2)(D).

Under section 846(c), the Secretary determines the applicable interest rate to be used by insurance companies to discount unpaid losses on the basis of the corporate bond yield curve (as defined in section 430(h)(2)(D)(i), determined by substituting “60-month period” for “24-month period”). Under §1.832-4(c), the applicable interest rate determined under section 846(c) is also used by insurance companies to discount estimated salvage recoverable, unless the Commissioner publishes applicable discount factors to be used for that purpose.

**Explanation of Provisions**

These proposed regulations specify the methodology used to develop the corporate bond yield curve. This methodology is generally the same as the methodology set forth in Notice 2007-81 but would include two refinements to take into account changes in the bond market since 2007. The proposed regulations would also amend the existing regulations under section 430(h)(2) to reflect the addition of the interest rate stabilization rules of section 430(h)(2)(C)(iv) and to eliminate transition rules that applied to plan years beginning before January 1, 2010.

Under these proposed regulations, as under Notice 2007-81, the monthly corporate bond yield curve for a month is defined as the set of spot rates at specified durations. The specified durations are at 6-month intervals ranging from 6 months through 100 years, and the spot rate at a duration is the yield (when compounded semiannually) for a bond that matures at that duration with a single payment at maturity. Each spot rate at a specified duration on the monthly corporate bond yield curve for a month is equal to the arithmetic average for each business day of that month of the spot rates at that duration on the daily corporate bond yield curves.

Under these proposed regulations, as under Notice 2007-81, each spot rate on the daily corporate bond yield curve is calculated using a discount function, which is derived from a forward interest rate function (that is, the projected instantaneous interest rate at each point in time). The forward interest rate function is defined by the selection of five coefficients of B-splines that are determined using the bond data and taking into account certain adjustment factors.

Two of those adjustment factors, which are included in the methodology set forth in Notice 2007-81, take into account the ratings of the bonds used to develop the daily corporate bond yield curve. The third adjustment factor, which was not included in the methodology set forth in that notice, is a hump adjustment variable that peaks at 20 years maturity[2] and serves to capture the effects of the hump in spot rates that is often seen around 20 years maturity.

These proposed regulations generally adopt the specification for the bond data set for a month in Notice 2007-81 but modify an exclusion from that bond data set. Under Notice 2007-81 and the proposed regulations, subject to certain exclusions, the bonds that are used to construct the daily corporate bond yield curve for a business day are bonds with the following characteristics: (1) maturities longer than a ½ year,[3] (2) at least two payment dates, (3) designated as corporate, (4) high quality ratings (that is, AAA, AA, or A) as of that business day from the nationally recognized statistical rating organizations,[4] (5) at least $250 million in par amount outstanding on at least one day during the month, (6)

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[2] The hump adjustment variable is a mathematical function that is a cubic spline in the interval from 10 years maturity through 30 years maturity made up of two polynomials with a smooth junction at 20 years maturity.

[3] Under Notice 2007-81 and the proposed regulations, the data for durations equal to or below ½ year that is used to construct the daily corporate bond yield curve consists of AA financial and AA nonfinancial commercial paper rates, as reported by the Federal Reserve Board.

[4] Although section 939A(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376, generally prohibits federal agencies from issuing regulations that apply a standard that is based on credit ratings from statistical rating organizations, this prohibition does not apply to the construction of the daily corporate bond yield curve because the use of those credit ratings is required by section 430(h)(2)(D) of the Code.

payment of fixed nominal semiannual coupons and the principal amount at maturity, and (7) maturity not later than 30 years after that day.

Under Notice 2007-81 and these proposed regulations, the following categories of bonds are excluded from the bond data set: (1) bonds not denominated in U.S. dollars, (2) bonds not issued by U.S. corporations, (3) bonds that are capital securities (sometimes referred to as hybrid preferred stock), (4) bonds having variable coupon rates, (5) convertible bonds, (6) bonds issued by a government-sponsored enterprise (such as the Federal National Mortgage Association), (7) asset-backed bonds, (8) putable bonds, (9) bonds with sinking funds, and (10) bonds with a par amount outstanding below $250 million for the day for which the daily yield curve is constructed.

Notice 2007-81 also excluded callable bonds (unless the call feature is make-whole) from the bond data set used to construct the daily corporate bond yield curve. The proposed regulations generally retain this exclusion but narrow it. Under the proposed regulations, this exclusion does not apply if the call feature is exercisable only during the last year before maturity. This type of call feature has recently become more widely used, and the inclusion of bonds with this feature in the data set will result in a significantly larger pool of bonds that more accurately reflects the market for high quality corporate bonds.

**Proposed Applicability Date**

The rules in the proposed regulations are proposed to apply for months that begin more than 15 days after the date final regulations specifying the methodology for constructing the corporate bond yield curve are published in the *Federal Register*.

**Statement of Availability of IRS Documents**

IRS Revenue Rulings, Revenue Procedures, and Notices cited in this document are published in the Internal Revenue Bulletin (or Cumulative Bulletin) and are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by visiting the IRS website at www.irs.gov.

**Special Analyses**

**Regulatory Planning and Review (Executive Orders 12866 and 13563)**

These regulations are not subject to review under section 6(b) of Executive Order 12866 pursuant to the Memorandum of Agreement (April 11, 2018) between the Treasury Department and the Office of Management and Budget regarding review of tax regulations.

**Regulatory Flexibility Act (5 U.S.C. chapter 6).**

It is hereby certified that this rule will not have a significant economic impact on a substantial number of small entities. The vast majority of plan sponsors of defined benefit plans that are subject to section 430 choose to use the segment rates under section 430(h)(2)(C), rather than the corporate bond yield curve under section 430(h)(2)(D), to determine minimum required contributions. Furthermore, most of the plan sponsors who choose to use the corporate bond yield curve for this purpose are not small employers. Therefore, the methodology set forth in the proposed regulations for constructing the corporate bond yield curve will not have a significant effect on minimum required contributions for small employers. In addition, the insurance companies that are required to use a modified version of the corporate bond yield curve to discount unpaid losses are typically not small employers. Accordingly, a regulatory flexibility analysis under the Regulatory Flexibility Act is not required.

Pursuant to section 7805(f) of the Code, these proposed regulations will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

**Comments and Requests for a Public Hearing**

Before these proposed amendments to the regulation are adopted as a final regulation, consideration will be given to comments regarding the notice of proposed rulemaking that are submitted timely to the IRS as prescribed in the preamble under the ADDRESSES section. The Treasury Department and the IRS request comments on all aspects of the proposed regulation. All comments will be made available at *www.regulations.gov*. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn.

A public hearing has been scheduled for August 30, 2023 beginning at 10 a.m. ET in the Auditorium of the Internal Revenue Building, 1111 Constitution Avenue NW, Washington, DC. Due to building security procedures, visitors must enter at the Constitution Avenue entrance. In addition, all visitors must present photo identification to enter the building. Because of access restrictions, visitors will not be admitted beyond the immediate entrance area more than 30 minutes before the hearing starts. Participants may alternatively attend the public hearing by telephone. .

The rules of 26 CFR §601.601(a)(3) apply to the hearing. Persons who wish to present oral comments must submit an outline of the topics to be addressed and the time to be devoted to each topic by [**INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER**] as prescribed in the preamble under the **ADDRESSES** section. A period of 10 minutes will be allocated to each person for making comments. An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing. If no outline of the topics to be discussed at the hearing is received by **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**, the public hearing will be cancelled. If the public hearing is cancelled, a notice of cancellation of the public hearing will be published in the *Federal Register*.

Individuals who want to testify in person at the public hearing must send an email to *publichearings@irs.gov* to have your name added to the building access list. The subject line of the email must contain the regulation number REG-124123-22 and the language TESTIFY In Person. For example, the subject line may say: Request to TESTIFY In Person at Hearing for REG-124123-22.

Individuals who want to testify by telephone at the public hearing must send an email to *publichearings@irs.gov* to receive the telephone number and access code for the hearing. The subject line of the email must contain the regulation number REG-124123-22 and the language TESTIFY Telephonically. For example, the subject line may say: Request to TESTIFY Telephonically at Hearing for REG-124123-22.

Individuals who want to attend the public hearing in person without testifying must also send an email to *publichearings@irs.gov* to have your name added to the building access list. The subject line of the email must contain the regulation number REG-124123-22 and the language ATTEND In Person. For example, the subject line may say: Request to ATTEND Hearing In Person for REG-124123-22. Requests to attend the public hearing must be received by 5:00 p.m. EST on August 28, 2023.

Individuals who want to attend the public hearing by telephone without testifying must also send an email to *publichearings@irs.gov* to receive the telephone number and access code for the hearing. The subject line of the email must contain the regulation number REG-124123-22 and the language ATTEND Hearing Telephonically. For example, the subject line may say: Request to ATTEND Hearing Telephonically for REG-124123-22. Requests to attend the public hearing must be received by 5:00 p.m. EST on August 28, 2023.

Hearings will be made accessible to people with disabilities. To request special assistance during a hearing please contact the Publications and Regulations Branch of the Office of Associate Chief Counsel (Procedure and Administration) by sending an email to *publichearings@irs.gov* (preferred) or by telephone at (202) 317-6901 (not a toll-free number) at least August 25, 2023.

**Drafting Information**

The principal authors of these regulations are Arslan Malik and Linda S. F. Marshall of the Office of Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes). However, other personnel from the Treasury Department and the IRS participated in the development of these regulations.

**List of Subjects in 26 CFR Part 1**

Income taxes, Reporting and recordkeeping requirements.

**Proposed Amendments to the Regulations**

Accordingly, the Treasury Department and the IRS propose to amend 26 CFR part 1 as follows:

**PART 1--INCOME TAXES**

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Amend § 1.430(h)(2)-1 as follows:

1. Amend paragraph (a)(1) by removing the phrase “and transition rules” in the last sentence.

2. Revise paragraph (b)(2).

3. Amend paragraph (c)(1) by removing the last sentence.

4. Amend paragraphs (c)(2)(i), (c)(2)(ii), and (c)(2)(iii) by removing the phrase “under the transition rule of paragraph (h)(4) of this section” and adding

the phrase “under the interest rate stabilization rules in section 430(h)(2)(C)(iv)” in its place.

5. Revise paragraph (d).

6. Remove paragraph (e)(3) and redesignate paragraph (e)(4) as paragraph (e)(3) and paragraph (e)(5) as paragraph (e)(4).

7. In newly redesignated paragraph (e)(3)(ii), remove the phrase “this paragraph (e)(4)” and add the phrase “this paragraph (e)(3)” in its place.

8. Revise paragraph (h).

The revisions and additions read as follows:

**§1.430(h)(2)-1 Interest rates used to determine present value.**

* * * * *

(b) * * *

(2) In the case of benefits expected to be payable during the 5-year period beginning on the valuation date for the plan year, the interest rate used in determining the present value of the benefits that are included in the target normal cost and the funding target for the plan is the first segment rate with respect to the applicable month, as described in paragraph (c)(2)(i) of this section.

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(d) *Monthly corporate bond yield curve*--(1) *In general*--(i) *Construction of monthly corporate bond yield curve*. For purposes of this section, the monthly corporate bond yield curve for a month is defined as the set of spot rates at specified durations. The specified durations are at 6-month intervals ranging from

6 months through 100 years and the spot rate at a duration is the yield (when compounded semiannually) for a bond that matures at that duration with a single payment at maturity. The monthly corporate bond yield curve is constructed as the average of the spot rates from the set of daily corporate bond yield curves as specified in paragraph (d)(1)(ii) of this section. Each daily corporate bond yield curve is constructed using the methodology set forth in paragraph (d)(2) of this section based on the data described in paragraph (d)(3) of this section. Note 1 to paragraph (d)(1) of this section, the yield curve for each month will be published in the Internal Revenue Bulletin. See § 601.601(d) of this chapter.

(ii) *Monthly corporate bond yield curve constructed through averaging*. Each spot rate at a specified duration on the monthly corporate bond yield curve for a month is equal to the arithmetic average, for each business day of that month, of the spot rates at that duration on the daily corporate bond yield curves.

(2) *Construction of the daily corporate bond yield curve*--(i) *In general*--(A) *Calculation of spot rates*. Each spot rate at duration *t* on a daily corporate bond yield curve is calculated from the discount function described in paragraph (d)(2)(i)(B) of this section and the hump adjustment variable described in paragraph (d)(2)(iii)(D) of this section.

(B) *Derivation of discount function*. The discount function for a day at duration *t* is derived from the forward interest rate function as described in paragraph (d)(2)(ii) of this section (denoted *f(z)*) using the following equation:

$$d(t) = exp\left(-\int_0^t f(z)dz\right)$$

(ii) *Determination of forward interest rates*--(A) *In general*. The forward interest rate function used to derive the discount function is determined as a series of cubic polynomials (referred to as a cubic spline) that have a smooth junction at specified knot points (maturities of 0, 1.5, 3, 7, 15, and 30 years). The requirement that the polynomials have a smooth junction at a knot point is satisfied if the two polynomials that are meeting at the knot have the same value, the same derivative, and the same second derivative at that knot point.

(B) *Constraints on the forward interest function*. The following three constraints are placed on the forward interest rate function--

(*1*) The second derivative of the function is set to zero at maturity zero.

(*2*) The value of the forward interest rate function at and after 30 years is constrained to equal its average value from 15 to 30 years.

(*3*) The derivative of the forward interest rate function is set to zero at maturity 30 years.

(iii) *Parameters for daily bond price model*--(A) *B-spline coefficients*. The assumed cubic spline for the forward interest rate function can be described as a linear combination of B-splines, with five parameters, which are determined taking into account the two coefficients for the bond-quality adjustment variables described in paragraphs (d)(2)(iii)(B) and (C) of this section and the coefficient for the hump adjustment variable described in paragraph (d)(2)(iii)(D) of this section. The five parameters and three coefficients are determined using the bond data weighted as described in paragraph (d)(2)(iv) of this section. After this weighting of the bond data, the five parameters and three coefficients are chosen to minimize the sum of the squared differences between the bid price for each of the bonds (or ask price for commercial paper) and the price estimated for each of those bonds determined using the specified parameters and coefficients, and taking into account the bond's coupon rate, number of years until maturity, and rating.

(B) *Adjustment factor for share of bonds that are AA-rated*. The first adjustment variable is based on the proportion of bonds that are rated AA within the universe of bonds in the data set that are rated AA or AAA, weighted by par value. In the case of an AAA-rated bond the adjustment variable described in this paragraph (d)(2)(iii)(B) is equal to the product of the proportion described in the preceding sentence and the number of years until maturity for the bond. In the case of an AA-rated bond the adjustment variable described in this paragraph (d)(2)(iii)(B) is equal to the product of (1- that proportion) and the number of years until maturity for the bond. In the case of an A-rated bond, the adjustment variable described in this paragraph (d)(2)(iii)(B) is set to 0.

(C) *Adjustment factor for share of bonds that are A-rated*. The second adjustment variable is based on the proportion of bonds rated A within the universe of bonds in the data set, weighted by par value. In the case of an AAA-rated bond or an AA-rated bond, the adjustment variable described in this paragraph (d)(2)(iii)(C) is equal to the product of the proportion described in the preceding sentence and the number of years until maturity for the bond. In the case of an A-rated bond the adjustment variable described in this paragraph (d)(2)(iii)(C) is equal to the product of (1- that proportion) and the number of years until maturity for the bond.

(D) *Hump adjustment variable*. The hump adjustment variable is a mathematical function that is a cubic spline in the interval from 10 years maturity through 30 years maturity made up of two polynomials with a smooth junction (as described in paragraph (d)(2)(ii)(A) of this section) at 20 years maturity. The spline rises from zero at 10 years maturity to 1.0 at 20 years maturity, then falls back down to zero at 30 years maturity. The hump adjustment variable is zero for maturities less than 10 years and maturities greater than 30 years.

(iv) *Weighting of bond data*. The bond data are weighted in two steps. First, equal weights are assigned to the commercial paper rates at the short end of the curve, and the par amounts outstanding of all the bonds are rescaled so that their sum equals the sum of the weights for commercial paper. Then, the squared price difference for each bond is multiplied by the bond's rescaled par amount outstanding, and the squared difference for each commercial paper rate is multiplied by the commercial paper weight. In the second stage, applicable for bonds with duration greater than 1, the weighted squared price difference for each bond from the first stage is divided by the bond's duration.

(3) *Data used*--(i) *In general*. Except as otherwise provided in this paragraph (d)(3), the bonds that are used to construct the daily corporate bond yield curve for a business day are bonds with maturities longer than a ½ year, with at least two payment dates, and that:

(A) Are designated as corporate;

(B) Have high quality ratings (AAA, AA, or A) as of that business day from the nationally recognized statistical rating organizations;

(C) Have at least $250 million in par amount outstanding on at least one day during the month;

(D) Pay fixed nominal semiannual coupons and the principal amount at maturity; and

(E) Mature not later than 30 years after that business day.

(ii) *Excluded bonds*. The following types of bonds are not used to construct the daily corporate bond yield curve for a date:

(A) Bonds not denominated in U.S. dollars;

(B) Bonds not issued by U.S. corporations;

(C) Bonds that are capital securities (sometimes referred to as hybrid preferred stock);

(D) Bonds having variable coupon rates;

(E) Convertible bonds;

(F) Bonds issued by a government-sponsored enterprise (such as the Federal National Mortgage Association);

(G) Asset-backed bonds;

(H) Callable bonds unless the call feature is make-whole or the call feature is exercisable only during the last year before maturity;

(I) Putable bonds;

(J) Bonds with sinking funds; and

(K) Bonds with a par amount outstanding below $250 million for the day for which the daily yield curve is constructed.

(iii) *Durations equal to or below a ½ year*. The data for durations equal to or below a ½ year that is used to construct the daily corporate bond yield curve consists of AA financial and AA nonfinancial commercial paper rates, as reported by the Federal Reserve Board.

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(h) *Applicability date of regulations*. This section applies to months that begin more than 15 days after the date final regulations issued pursuant to these proposed regulations are published in the *Federal Register*. For rules that apply for earlier periods, see §1.430(h)(2)-1, as it appeared in the April 1, 2022, edition of 26 CFR part 1.

**Douglas W. O'Donnell,**

*Deputy Commissioner for Services and Enforcement*.

[FR Doc. 2023-12693 Filed: 6/22/2023 8:45 am; Publication Date: 6/23/2023]